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## United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP  
WASHINGTON, DC 20510-6350

March 1, 2007

The Honorable Kent Conrad  
Chairman  
Committee on the Budget  
United States Senate  
Washington, DC 20510

The Honorable Judd Gregg  
Ranking Member  
Committee on the Budget  
United States Senate  
Washington, DC 20510

Dear Kent and Judd:

As Ranking Member of the Senate Committee on Small Business and Entrepreneurship, I submit the following views and estimates on the President's Fiscal Year 2008 budget request for the Small Business Administration (SBA) and other matters under the Committee's jurisdiction, as directed by §301(d) of the Congressional Budget Act.

Small businesses are the engines that drive our nation's economy, creating nearly three-quarters of all new jobs and generating 50 percent of our gross domestic product. As a result of SBA's lending and technical assistance programs, over 5.3 million jobs were created or retained since 1999. The SBA's budget represents less than 2/100th of a percent of the total Federal budget and there should be no doubt we must create a favorable climate for our nation's 25.8 million small businesses to grow, thrive and create jobs. Our investment in a strong and robust SBA is pivotal in keeping our nation innovative and competitive.

The Administration has proposed a budget for the SBA of \$464 million for Fiscal Year 2008. Excluding the Disaster Loan program, this represents an unacceptable 31 percent reduction in the agency's core loan and technical assistance programs since 2001. We have an obligation to not only maintain, but to strengthen the SBA's proven job generating core loan and assistance programs. Small businesses yearn to grow, flourish and thrive, and the SBA has the experience and the resources to be their bridge to success.

### *Affordable Health Insurance.*

Small businesses continue to face a crisis when it comes to securing quality, affordable health insurance. Health insurance premiums have increased at double digit percentage levels in four of the past six years, and small businesses are trapped in dysfunctional small group markets that are dominated by a handful of insurance carriers offering few coverage options. In addition, only 48 percent of our nation's smallest employers, with less than 10 employees, are now able to offer health insurance to their employees. That percentage is down from 58 percent in 2002. I firmly believe that Small Business Health Plans – also known as Association Health Plans – are the solution to the small business health insurance crisis. Small Business Health Plans would

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allow small businesses to purchase health insurance with the same advantages that large businesses and unions currently enjoy under Federal law at a very minimal cost to the Federal government. I encourage the Budget Committee to establish an appropriate budget allocation to accommodate small business health insurance legislation, including tax incentives to both: (1) encourage more of our nation's smallest businesses to offer health insurance to their employees; and (2) inject more competition among insurers into dysfunctional small group markets.

*Small Business Tax Simplification.*

In order to help maintain an environment where small businesses can grow and prosper, it is essential that small businesses are provided relief from the complex and burdensome tax code. I support the President's proposal to increase and make permanent small business expensing and have introduced legislation, S. 1523 and S.2287, that would implement these proposals.

In order to promote small business development, the gross receipts threshold should be increased from \$5 million to \$10 million for taxpayers that will qualify for cash method accounting as provided in S. 543, as well as allowing small partnerships and S Corporations to elect a taxable year other than the calendar year. I believe that these tax relief and simplification measures would go a long way to reducing the burden on small businesses in complying with the tax code and urge the Budget Committee to accommodate these proposals.

*Small Business Regulatory Reform.*

Over the past twenty years, the number and complexity of Federal regulations have multiplied at an alarming rate. These rules and regulations impose a much more significant impact on small businesses than larger businesses. This is why I have introduced the Small Business Compliance Assistance Enhancement Act (S. 246), which would clarify existing requirements of when a small business compliance guide is required, how a guide shall be designated, and how and when a guide shall be published. This commonsense, good government reform would provide a major regulatory reform for small businesses at virtually no cost to the Federal government. I encourage the Budget Committee to establish an appropriate budget allocation to accommodate small business regulatory reform legislation.

*Disaster Program.*

The Administration has proposed carrying over funds remaining from the Emergency Supplementals from the 2005 Gulf Coast Hurricanes to fund the SBA's Disaster Loan program and Disaster Administrative funds. As the primary Federal agency providing loans to individuals

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and businesses after a disaster, the SBA's importance to disaster response and recovery efforts cannot be understated. It is critical the agency's Disaster Loan program has the necessary resources to operate at full capacity in the wake of future disasters. While I support the SBA's request, I urge Congress to closely monitor the agency's disaster accounts. As we saw following the 2005 Gulf Coast hurricanes, disasters are unpredictable in both scope and magnitude, and we must ensure the continued operation of such a vital program.

#### Microloan Program.

The SBA proposes to eliminate the subsidy for Microloans and transfer the technical assistance duties to the entrepreneurial development programs. The Administration's proposal includes increasing the interest rate SBA charges to a microlender for an SBA loan from 2 percent below the five-year Treasury rate to 1.06 percent above the five-year Treasury rate. Microloan borrowers however, have unique credit qualities, collateral, and financing needs that are significantly different from the SBA's 7(a) program. The SBA has even stated that a significant number of microloans are accessed by small businesses that face special opportunity gaps, with nearly 45 percent, or 1,066 loans, going to women-owned firms, 662 loans to African American- and 463 loans to Hispanic-owned companies in FY 2006. These proposed changes to the Microloan program will make it difficult or even impossible for these borrowers to secure financing to fund their new or established small businesses.

The Microloan program is a small, efficient, cost-effective program that is an important source of financing for entrepreneurs who have no other available options. Therefore, I request the Microloan program be funded at \$2 million and the Microloan Technical Assistance program be funded at \$15 million.

#### SCORE.

SCORE is a volunteer-based small business assistance network that is both cost-efficient and effective. By utilizing a cadre of nearly 11,000 experienced volunteers, SCORE provides expert training to hundreds of thousands of entrepreneurs and small business owners each year at low or no-cost. For over 43 years, SCORE volunteers have served over 7 million clients and in FY2006, assisted over 308,000 clients.

The SBA has requested to fund SCORE at \$4.95 million, an insufficient amount that would hinder the program from expanding and updating its scope of services. Consequently, I recommend SCORE funding for FY2008 be increased to \$7 million so that SCORE can adequately meet the needs of small businesses.

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*Small Business Development Center (SBDC) Program.*

The SBDC program is the SBA's largest and most extensive technical assistance program, with more than 1,100 service delivery points nationwide. Since its inception, the SBDC program has served over ten million clients, including new business start-ups, struggling firms, and firms seeking to grow and expand. The SBDC program is a tremendous bargain for taxpayers, returning \$2.66 in Federal tax revenues for every dollar spent.

Each year the SBDCs have exceeded the SBA's goals, training and counseling approximately 650,000 and providing higher levels of service. The SBA proposes to decrease funding for SBDCs to \$87 million, while at the same time expecting the program to take on additional services of the Microloan technical assistance program. It is essential that the SBDC program be funded at \$110 million in order to account for costs of inflation, hire additional counselors and to expand its services.

*Procurement Center Representatives (PCRs).*

Small business contractors save taxpayers' dollars and provide innovative solutions for the government's needs. As of FY 2005, the Federal contracting market has exceeded \$300 billion and is expected to exceed \$400 billion in the near future. The SBA has set ambitious plans for small business participation in Federal contracts, projecting to award \$85 billion to small firms and creating 600,000 jobs. I am concerned that these plans will fail due to lack of oversight. Bundling of government contracts continues to be a major barrier for small businesses. The SBA polices contract bundling practices, through its Procurement Center Representatives (PCRs), which are placed at major federal procurement centers to review proposed acquisition plans and advocate for more competition in contracting.

In FY 2006, the SBA Inspector General found that small businesses lost approximately \$380 million in contracting opportunities because the SBA failed to fully fund its Procurement Center Representative positions. Over the past several years, the SBA's PCR staffing levels have been woefully inadequate. The SBA proposes to maintain its FY 2008 staffing levels of only 66 PCR slots, which would leave approximately 100 of the top procurement centers without dedicated PCR coverage. The SBA's proposed staffing falls below FY1993 levels, when the Federal contracting market was barely about \$224 billion.

On August 3, 2006, OMB Deputy Director for Management Clay Johnson III wrote to me to confirm the Administration's strong support for increased hiring of PCRs: "We agree with you, however, that more aggressive steps can and must be taken to increase small business access to the Federal marketplace . . . [such as] aggressively exploring ways to increase the number of

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SBA's Procurement Center Representatives, in recognition of the important role they play in successfully implementing the President's Contract Bundling Initiative." Therefore, I request the appropriate amount of funding, be increased to the Salaries and Expenses account, to hire 100 more PCR's.

*Historically Underutilized Business Zone (HUBZone) Program.*

The HUBZone program, which gives contracting preferences to firms in economically distressed areas, is a vital tool of urban and rural development. The program has delivered significant Federal contracting opportunities to the areas that need them the most. However, the Federal government consistently failed to meet the HUBZone statutory prime contracting goal every year. Therefore, I request that the HUBZone program be funded at its full authorization of \$10 million.

*7(j) Procurement Technical Assistance Program.*

The 7(j) Program is intended to provide procurement technical assistance and training to small disadvantaged firms and owners of firms located in economically distressed areas. Lack of training for these businesses is the main reason why these small firms are unable to compete with larger firms. I recommend funding of \$2.5 million for the program, to increase program access and assure accountability.

*SBIR/STTR Technical Assistance Grants (Federal & State Partnership and Rural Outreach).*

The Federal and State Technology Partnership program (FAST) provides technical assistance to small businesses that compete for government grants and contracts under the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs. FAST is a competitive grants program that allows each state to provide services that support the SBIR and STTR programs. In the 2000 SBIR Reauthorization Act, Congress created the FAST program to strengthen the technological competitiveness of small business concerns in all 50 states. At that time, Congress also extended the SBIR Rural Outreach Grant Program (ROP), which provides certain states with relatively low participation in the SBIR and STTR programs, an opportunity to receive grants to increase its statewide participation levels in these programs.

In testimony before the House Small Business Committee in May 2003, the SBA explained that, "Participating agencies in the SBIR and STTR Programs have reported a significant increase in the number of proposals received for their current solicitations, which we believe is attributable to outreach and training provided by FAST and Rural Outreach grant

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recipients.” Given the proven success of these programs, I ask that you fund FAST at \$5 million and the ROP account at \$1 million.

Women's Business Centers (WBC).

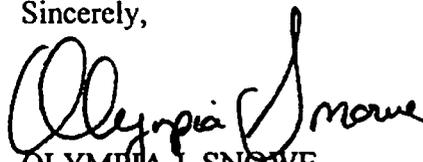
The success of women-owned firms is undeniable – generating almost \$2 trillion in revenues and employed more than 12.8 million workers in 2006, making them the fastest growing segment of today's economy. The SBA's Women's Business Center program is a critical partner to their successes having counseled and trained 129,000 clients in 2006 resulting in over 6,800 jobs created or retained. However, after five years of level funding at \$12.5 million the SBA proposes to decrease funding for the WBC program. Given these results, I recommend the WBC program funding for FY 2008 be increased to \$16.5 million.

Veterans Business Development Program.

Since September 2001, nearly 600,000 National Guard and Reserve personnel have been mobilized in support of current operations. Thirty-five percent of Guard and Reserve members work for small businesses or are self-employed. The SBA's Office of Veterans' Business Development (OVBD) has made a concerted effort to reach out to small businesses affected by National Guard and Reserve force call-ups, but given the sheer numbers of Guard and Reserve personnel mobilized, their resources have been stretched thin. The OVBD has been required to broaden its delivery of services, as directed by Executive Order 13360, to provide procurement training programs for service-disabled veterans. Therefore, to stem the effects of Guard and Reservist deployments on small businesses and to better assist veterans and service-disabled veterans, we respectfully request \$1.5 million for the OVBD.

Thank you for the opportunity to comment on programs within the Committee's jurisdiction. I look forward to working with you to develop a budget resolution that is cognizant of both the Administration's agenda and the need for strong small business programs that help to create jobs. If you have any questions about this letter, please contact me directly or have your staff contact Wally Hsueh, my Staff Director on the Committee, at (202) 224-7884.

Sincerely,

  
OLYMPIA J. SNOWE  
Ranking Member